Unemployment Tax Schedule to Change on July 1, 2010

An individual employer's tax rate is based upon the employer's experience with unemployment insurance. However, the change in schedules will mean that most employers will experience an increase in their tax rates for the rate year beginning July 1. The average employer tax rate will increase by 0.5% due to this change. The department will send employers their new rates by the end of June.

Vermont's unemployment insurance law provides 5 distinct tax schedules, each with 21 different tax rates. The law requires the department to compare the balance of the trust fund on December 31 each year with the worst year of unemployment during the previous 10 years to determine which schedule must be used. As the fund declines and is less likely to meet the demand for unemployment benefits, schedules with higher rates are used.

As mandated by law an analysis is done by the Department to determine which of the five tax rate schedules will be in effect. This analysis is mandated by law. There are three basic steps used to arrive at the proper tax schedule. First, the balance in the Vermont unemployment insurance trust fund at the end of the last calendar year (in this case, December 2009) is divided by the total wages paid by employers who pay taxes into the trust fund during that same period (reimbursable employers are not included in the calculation of tax rates, since they don't pay taxes). The result is the current fund ratio. Next, the highest level of unemployment insurance benefit payments made during a twelve month period during the last 10 years is determined. That amount, which was paid out during the 12 months ending December 31, 2009, is divided by the total wages paid by taxpaying employers during the four quarters ending on December 31, 2009, to arrive at the benefit cost rate. Finally, the current fund ratio is divided by the benefit cost ratio. Dividing the current fund ratio by the benefit cost ratio gives an estimate of the number of years of benefits available in the trust fund to meet the costs during an economic downturn. If that ratio is between under 1.00, as it is this year, then Schedule V goes into effect for the 12 month period beginning July 1, 2010.

The national economic downturn that began in December of 2007 drained Vermont's and many other states' unemployment funds. During the first half of 2010, Vermont borrowed $32 million from the federal government to cover unemployment benefit costs. The seriousness of this recession will lead to an additional 5 years of borrowing. Tax schedule 5 will be in effect until the unemployment fund becomes healthy; something not expected to occur for a number of years.